

FDIC State Profile

Winter 2005

Minnesota

Minnesota's economy reached a new employment peak in third quarter 2005.

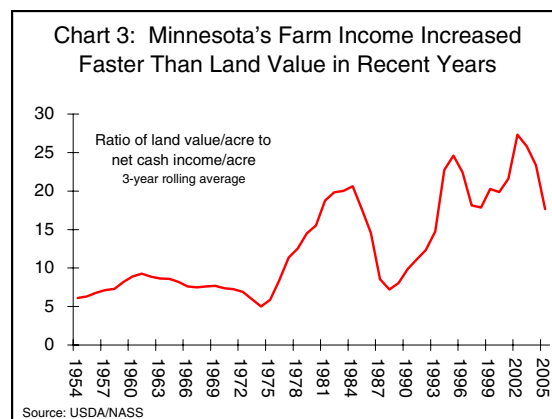
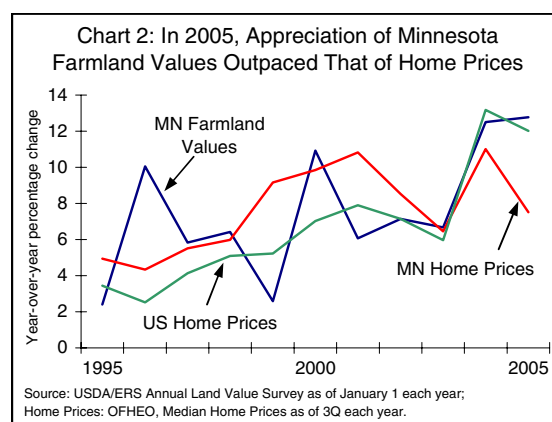
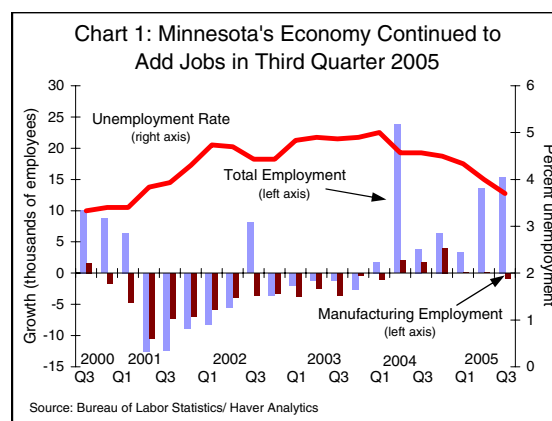
- Minnesota's economy added more than 15,000 jobs in third quarter 2005, attaining a record level of 2.73 million jobs on a seasonally-adjusted basis (see Chart 1). Improvement was widely distributed across job sectors, with only information and other services declining slightly on a year-over-year basis.
- Despite continuing expansion in the general economy, the manufacturing sector lost nearly 1,000 jobs in the third quarter. Only 6,000 of the 51,000 manufacturing jobs lost in the downturn of 2000 to 2003 have been recovered, with the largest losses occurring in computer and electronic equipment production, the fabrication of metal products, and food processing.
- Persistent and increasing job growth caused unemployment to decline to 3.7 percent in the third quarter, the lowest level in five years.

The value of Minnesota farmland surged 12.8 percent in 2005.

- In the past three years, Minnesota farmland values have grown faster than home prices (see Chart 2).
- According to the United States Department of Agriculture, Minnesota farmland values increased 12.8 percent to \$2,030 per acre in 2005, following a 12.5 percent increase in 2004. While \$2,030 is a record for Minnesota farmland value in nominal terms, when adjusted for inflation, the 2005 farmland price is only 84 percent of that achieved in 1981, when farmland values reached historic levels.
- Low interest rates, favorable crop yields, generous federal farm programs, and non-agricultural demand for farmland have contributed to the increase in farmland values.

Minnesota's farmland values have risen more slowly than net cash farm income in recent years.

- The ratio of Minnesota's farmland value to net cash farm income (per acre) increased steadily from 1989 to 2002, largely reflecting the expansion of suburbs and conversion of farmland for recreational uses (see Chart 3).



State Profile

- The price-income ratio rose sharply from 1977 to 1984, reflecting the spike in land prices during that period.
- During the 2003 to 2005 period, farm income growth outpaced increases in land value, causing the price-income ratio to decline sharply.

Minnesota insured institutions report continuing strong operating results, but deposit disintermediation appears to have returned.

- Third quarter earnings performance remained positive. Median net interest margin increased 8 basis points from one year earlier to 4.45 percent, and median return on assets increased slightly from one year earlier to 1.41 percent. Additionally, strong loan growth continued. The third quarter 2005 median loan-to-asset ratio increased 2.8 percentage points from third quarter 2004 to 72.0 percent after increasing 3.1 percentage points from the similar 2003 to 2004 period.
- While institution deposit-to-asset ratios stabilized from 2002 to 2003, coinciding with declining desirability of alternatives to deposits such as stock investments, the resurgence of equities is again causing deposit levels to lag (see Chart 4).

Stronger demographics lead to higher deposit growth rates in Minnesota's metropolitan areas.

- Annual Summary Deposits data as of June 30, 2005, show that deposit growth among community bank branches in Minnesota's metropolitan areas has substantially outpaced the rest of the state over the past five years.¹ Primarily, this is indicative of the growing polarity in Minnesota's population growth (see Table 1).
- Seeking better growth opportunities, an increasing number of nonmetropolitan-based institutions in Minnesota are opening branches in metropolitan areas. In 1995, 5 percent of banks headquartered in nonmetropolitan Minnesota had branches in metro areas. That proportion has steadily increased, registering 12 percent in 2005.
- Although branching into metro areas might provide increased deposit growth opportunities for some institutions, it might also subject them to greater direct competition with significantly larger institutions.

Statewide bank branch growth continues in Minnesota, and large bank control increased as well.

- Bank branch growth in Minnesota remained strong during the past year. The number of bank branches in Minnesota increased 2.8 percent from June 2004 to June 2005.

- The growth was concentrated in Minnesota's largest metropolitan centers. **Minneapolis, Duluth, and Rochester** grew 5.3 percent, 7.1 percent, and 5.1 percent, respectively.
- After declining the past two years, the percent of branches in nonmetropolitan Minnesota controlled by larger bank organizations—those with combined assets of \$10 billion or more—grew in 2005 but still remained well below metropolitan levels (see Chart 5).

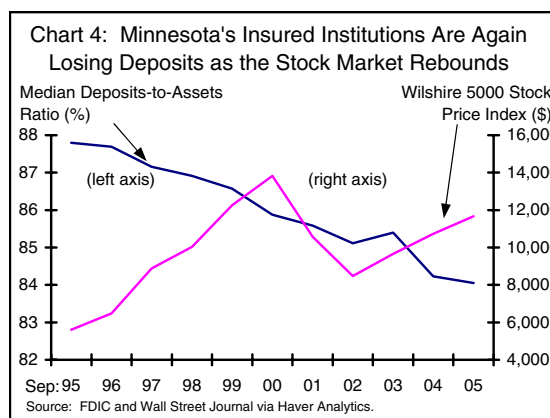
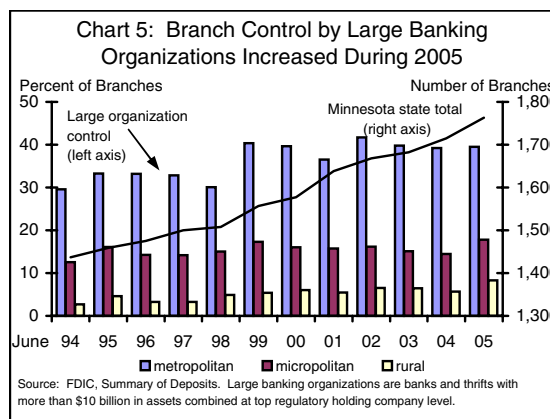


Table 1: Community Bank Deposit Growth Is Stronger in Minnesota's Metropolitan Areas

Minnesota Branch Location	Deposit Growth	Population Growth
Metropolitan	11.1	1.1
Micropolitan	5.8	0.6
Rural	5.3	0.2
Statewide	8.1	0.9

Source: FDIC, U.S. Census Bureau, Community banks in operation since at least 1997. Annualized growth rates: deposits '00-'05, population : '00-'04.



¹For this Profile, the term "branches" includes banking facilities in main offices and branch locations.

Minnesota at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	1.1%	0.7%	0.6%	-0.2%
Manufacturing (13%)	1.0%	1.9%	0.6%	-0.2%	-3.5%
Other (non-manufacturing) Goods-Producing (5%)	2.3%	-0.2%	0.2%	1.1%	0.4%
Private Service-Producing (67%)	1.6%	1.1%	1.1%	1.0%	0.5%
Government (15%)	1.1%	0.8%	-0.6%	-0.3%	-0.4%
Unemployment Rate (% of labor force)	3.7	4.0	4.6	4.7	4.9

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.0%	5.7%	6.5%	3.8%
Single-Family Home Permits	-0.1%	-2.6%	-5.9%	0.0%	18.7%
Multifamily Building Permits	-49.6%	-36.4%	10.3%	5.2%	-12.5%
Existing Home Sales	0.7%	-0.6%	2.1%	8.4%	3.3%
Home Price Index	7.5%	9.7%	11.0%	9.4%	7.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.14	4.12	3.24	3.50	4.17

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	469	470	483	478	486
Total Assets (in millions)	64,674	65,360	62,695	63,483	108,679
New Institutions (# < 3 years)	18	16	16	15	13
Subchapter S Institutions	306	305	294	290	269

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.45	1.48	1.50	1.38	1.65
ALLL/Total Loans (median %)	1.23	1.25	1.24	1.25	1.27
ALLL/Noncurrent Loans (median multiple)	2.02	2.37	1.84	2.11	1.83
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.02	0.07	0.10

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.54	9.39	9.28	9.23	9.05
Return on Assets (median %)	1.48	1.38	1.46	1.32	1.24
Pretax Return on Assets (median %)	1.70	1.64	1.70	1.57	1.53
Net Interest Margin (median %)	4.49	4.49	4.47	4.37	4.33
Yield on Earning Assets (median %)	6.54	6.29	5.97	5.90	6.13
Cost of Funding Earning Assets (median %)	2.07	1.85	1.50	1.49	1.76
Provisions to Avg. Assets (median %)	0.08	0.10	0.09	0.12	0.14
Noninterest Income to Avg. Assets (median %)	0.59	0.57	0.62	0.60	0.64
Overhead to Avg. Assets (median %)	2.97	3.03	2.98	3.03	3.05

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	72.0	71.8	69.2	69.1	65.9
Noncore Funding to Assets (median %)	17.8	17.5	15.6	14.9	13.0
Long-term Assets to Assets (median %, call filers)	9.6	10.2	12.0	11.5	12.5
Brokered Deposits (number of institutions)	204	186	169	177	136
Brokered Deposits to Assets (median % for those above)	5.5	4.9	3.8	3.9	3.2

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	118.9	123.2	117.0	114.4	115.7
Commercial Real Estate	197.8	192.3	169.5	178.1	154.8
<i>Construction & Development</i>	33.8	32.1	27.5	29.7	23.3
<i>Multifamily Residential Real Estate</i>	2.7	2.6	2.0	2.4	1.7
<i>Nonresidential Real Estate</i>	139.7	137.5	124.1	133.4	118.0
Residential Real Estate	159.0	160.6	160.4	163.1	151.7
Consumer	41.2	42.7	44.5	43.4	50.5
Agriculture	84.1	88.3	92.6	88.9	94.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Minneapolis-St. Paul-Bloomington, MN-WI	176	56,362	< \$250 million	424 (90.4%)
Fargo, ND-MN	25	3,412	\$250 million to \$1 billion	41 (8.7%)
St. Cloud, MN	34	3,217	\$1 billion to \$10 billion	3 (0.6%)
Duluth, MN-WI	32	3,094	> \$10 billion	1 (0.2%)
Rochester, MN	25	2,370		